

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON MPOFANA MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Mpozana Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information as set out on pages xx to xx.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa (Act no 1 of 2010) (DORA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. Paragraph 11 *et seq.* of GRAP 1, *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard

is not effective for this financial year, I have determined that my audit of any disclosures made by the Mpofana Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

8. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Mpofana Municipality as at 30 June 2010 and its financial performance and its cash flows for the year then ended in accordance with the SA Standards of GRAP and in the manner required by the MFMA and DORA.

Emphasis of matters

9. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Material losses

10. As disclosed in note 44 to the financial statements, the municipality incurred significant electricity distribution losses of approximately 16%. The quantum of electricity losses in volume amounts to 9 674 972 kWh with a rand value of R3 436 293.

Additional matter

11. I draw attention to the matter below. My opinion is not modified in respect of these matters:

Other information included in the annual report

12. I have not obtained the other information included in the annual report for my review and have not been able to identify any material inconsistencies with the financial statements

Unaudited supplementary schedules

13. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

14. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations: the MFMA, Local Government Municipal Systems Act of South Africa, No 32 of 2000 (MSA)

Predetermined objectives

15. Material findings on the report on predetermined objectives, as set out on pages xx to xx are reported below:

Non-compliance with regulatory and reporting requirements

Lack of adoption or implementation of a performance management system

16. The municipality did not adopt and implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, as required in terms of sections 36, 38 and 41(2) of the MSA, and regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

Internal auditing of performance measurements

17. The internal auditors of the municipality did not audit the performance measurements on a continuous and did not submit quarterly reports on their audits to the municipal manager and the performance audit committee as required by section 45 of the MSA.

Functioning of performance audit committee

18. The audit committee which is also the performance audit committee did not function in accordance with section 14(4) of the Municipal Planning and Performance Management Regulations.

Content of the integrated development plan

19. The integrated development plan of the Mpofana Municipality did not include performance targets determined in terms of its performance management system, as required by sections 26(i) and 41(1)(b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.

Inadequate quarterly reporting on performance information

20. The quarterly reports of the Mpofana Municipality did not track progress against outputs, indicators and targets as per the approved Integrated Development Plan (IDP) and therefore did not facilitate effective performance monitoring and evaluation, as required by section 40 of the MSA.

Usefulness of reported performance information

21. The following criteria were used to assess the usefulness of the planned and reported performance:
- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
 - Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
 - Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit findings relate to the above criteria:

Incomplete reporting on all predetermined objectives, indicators and targets

22. The actual achievements with regard to 90% of planned indicators specified in the Integrated Development Plan (IDP) for the year under review, for the selected objective: Basic Service Delivery and Infrastructure Development were not reported in the annual performance report submitted for audit purposes.
23. The municipality has not reported on its performance against predetermined objectives/indicators/targets which is consistent with the approved integrated development plan.

Reliability of reported performance information

24. The following criteria were used to assess the reliability of the planned and reported performance:
 - Validity: Has the actual reported performance occurred and does it pertain to the entity i.e. can the reported performance information be traced back to the source data or documentation?
 - Accuracy: Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
 - Completeness: All actual results and events that should have been recorded have been included in the reported performance information.

The following audit finding relates to the above criteria:

Reported targets not reliable as inadequate supporting source information was provided

25. For the reported targets relating to the objective, Basic Service Delivery and Infrastructure Development, that are material by nature, the validity, accuracy and completeness of the target could not be established as relevant source documentation could not be provided for audit purposes.

INTERNAL CONTROL

26. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA and MSA, but not for the purpose of expressing an opinion on the effectiveness of internal control.
27. The matters reported below are limited to the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

• Leadership

28. The accounting officer does not exercise oversight responsibility over performance reporting, compliance with laws and regulations and internal control. Actions are not taken to address risks relating to the achievement of complete and accurate performance reporting. Control weaknesses are not analysed and appropriate follow-up actions are not

taken that address risks relating to the achievement of performance reporting objectives.

- **Financial and performance management**

29. Systems are not appropriate to facilitate the preparation of quality performance reports. Adequate supporting documentation relating to the audit on pre-determined objectives were not made available for audit purposes.

- **Governance**

30. Internal controls are not selected and developed to prevent, detect and correct material misstatements in reporting on predetermined objectives. Management does not assess the likelihood of risks in ensuring that planned and reported targets are supported by adequate documentation. A risk strategy/action plan was not determined to manage identified risks relating to predetermined objectives.

Auditor-General

Pietermaritzburg

30 November 2010



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